COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE TARIFF FILING OF GTE SOUTH INCORPORATED TO INTRODUCE OPTIONAL LOCAL CALLING PLANS) CASE NO. 95-162

O R D E R

Procedural Background

On March 9, 1995, GTE South Incorporated ("GTE") filed a proposed tariff to introduce optional Local Calling Plans ("LCP") for business and residential customers in seventeen exchanges throughout the Commonwealth. No party intervened. However, in support of its proposed tariff GTE filed a community of interest analysis delineating the societal, economic and geographic relationship for each of the seventeen exchanges. As a part of its analysis, GTE supplied correspondence, petitions and other memoranda from city and county officials and subscribers expressing their desire for expanded calling areas. GTE has demonstrated that sufficient communities of interest exist for expanding local calling areas and for approving the LCP.

The Kentucky Legislature has expressed its desire to eliminate long-distance service charges between counties contiguous to counties which contain an urban-county government, specifically Jessamine and Woodford counties. The proposed tariff largely addresses the Legislature's concerns despite the current inability to offer the LCPs in the Midway exchange in Woodford County. LCPs cannot be offered in the Midway exchange on the plan implementation date due to central office switch limitations. The switch is expected to be upgraded in late 1995. Subsequently, GTE plans to add the Midway exchange to the list of LCP participating exchanges.

GTE's Proposal

GTE's proposed LCP will convert intraLATA, intrastate traffic within a limited area to seven digit local dialing at substantial reductions from current toll rates. Under the proposed structure, customers will be given five choices for their local calling: three local measured services options, a premium option, and a "stay as you are" option. These options are defined as follows:

1. Stay As You Are Option - This flat rate option allows customers to maintain their existing local calling area at their existing flat rate. Calls to the expanded calling areas would continue to be charged IntraLATA toll usage rates.

2. Basic Calling - This local measured service option allows customers to pay a reduced local access rate and pay reduced measured usage rates applicable to all calls within their newly expanded local calling area, including calls to their home exchange.

3. Community Calling - This second local measured service option allows customers to pay a local access rate slightly higher than the rate for Basic Calling. Calls placed within the home exchange will be flat rated calls. All other calls placed to

existing EAS[1] and the expanded local calling area exchanges will be billed at reduced measured usage rates.

4. Community Plus - This local measured service option would require customers to pay a slightly higher rate for local access than they currently pay. However, as is currently the case, all calls placed within the customer's home exchange and current EAS exchanges would be included in the flat rate. Calls to other exchanges in the expanded calling areas would be billed at reduced measured usage rates.

5. Premium Calling - This option allows customers to make unlimited calls within their home exchange, their EAS exchanges and their expanded local exchanges at a flat rate substantially higher than the current flat rate.

Each of GTE's tariff offerings is offered with or without local billing detail. Those customers choosing an option without local billing detail will receive a discount. The measured usage rates will be calculated based on time-of-day, day-of-week, distance called and duration of call. A set-up charge and rate per minute will be applied to each completed call. Calls placed during off-peak times will receive a 40 percent discount. Furthermore, calls made on a measured rate basis under one of the proposed local calling plans will be rated on a wirecenter-to-wirecenter basis.

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1 EAS is defined as extended area service and consists of exchanges other than the home exchange currently having flat rated calling.

In summary, GTE believes it has addressed the Commission's concerns as identified in its Order in Case No. 93-081.[2]

<u>Discussion</u>

In its Administrative Case No. 285[3] Order dated October 25, 1990, the Commission addressed issues surrounding local measured service. These policies were further refined in Case No. 91-250.[4] One of the requirements of the Orders in those cases was that local measured service plans are prohibited from placing upward pressure on existing rates. The Commission continues to require that optional expanded area calling plans containing local measured service options maintain revenue neutrality. Accordingly, GTE has priced its LCP proposal on a revenue neutral basis, based upon estimated LCP demand.

In Exhibits C thru K, GTE forecasted the impact of the proposed LCPs on its revenue requirements. GTE analyzed customer penetration, toll displacement and local calling stimulation for exchanges with similar calling plans in other states and estimated results for Kentucky exchanges. While the Commission recognizes

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[2] Case No. 93-081, The Tariff filing of GTE South Incorporated to Establish Rates and Charges for Local Calling Plans.

[3] Administrative Case No. 285, An Investigation Into the Economic Feasibility of Providing Local Measured Service Telephone Rates in Kentucky.

[4] Case No. 91-250, South Central Bell Telephone Company's Proposed Area Calling Service Tariff, Order dated April 9, 1992.

that GTE could not obtain sufficient Kentucky-specific data to use in its forecasts and pricing, GTE should submit a new forecast using 12 months of Kentucky-specific data 15 months from the date its plan is initiated. If this new forecast does not demonstrate that initial prices have proven to be revenue neutral, then GTE must use the new price-out to achieve revenue neutrality by altering prices or by modifying the number of options or level of service.

In Administrative Case No. 285, the Commission limited the number of local measured service options available within a given plan to one. The primary rationale for the limitation was the concern that customer confusion might result if the number of options was too broad. However, the Commission stated in its Order dated October 25, 1990, in Administrative Case No. 285, that it would consider adjusting its limitation based upon future experience. South Central Bell Telephone Company's ("SCB") Area Calling Service has now been in effect for nearly three years, and customer confusion has been minimal.

GTE's proposal has three local measured service options. In reviewing it, the Commission finds that the variations among the proposed local measured service options are well defined and should not materially add to customer confusion. Accordingly, GTE's three measured service options should be permitted.

GTE proposes to waive service order charges when customers select a service option and to allow unlimited option changes. The Commission recognizes that there may initially be customer confusion with regard to the five calling options and finds that there should be a six-month grace period within which customers may make unlimited calling option changes without incurring a service order charge. GTE shall begin to assess service order charges for each option change and to limit option changes to once per billing cycle after this six-month introductory period. Imposition of a service charge will ensure thoughtful cost consideration by the customer. The Commission will restrict the change in service options to once per billing cycle.

In Administrative Case No. 285, the Commission found that all telephone companies desiring to provide optional measured service should file a plan which includes an implementation schedule and the information to be provided to the customers in optional local measured service exchanges. GTE's proposal has not fully complied with this requirement and, accordingly, GTE should file with the Commission its plan of implementation, as well as the material to be provided to its customers, at least 45 days prior to implementation.

At Section 53.6.2.k of the proposed tariff, 25 cents is added to the current surcharges for calls to exchanges that were local or flat rated EAS prior to implementation. No price support was included in the filing. Thus, this additional 25 cent charge should be disapproved.

The Commission, being otherwise sufficiently advised, HEREBY ORDERS that:

1. GTE's tariff proposal is approved as modified herein, to be effective as of the date of this Order.

2. GTE shall modify its proposed tariff to require a reasonable service order charge for customers changing calling options. Such changes shall not occur more than once per billing cycle. GTE shall provide a 6-month grace period commencing with the implementation of its revised tariff, during which no charge for changing calling options will be imposed.

3. GTE shall gather 12 months of Kentucky-specific data as necessary to demonstrate the reasonableness and accuracy of all forecasts and calling option prices. GTE shall file this information with the Commission within 15 months of the date of implementation and shall submit proposed changes to the calling plans, if such changes are required to maintain revenue neutrality.

4. GTE shall provide an implementation schedule and material to be furnished to its customers at least 45 days prior to implementation.

5. The 25 cent surcharge added to Section 53.6.2.k of the proposed tariff is dismissed.

6. Within 30 days of the date of this Order, GTE shall file tariffs conforming to the decisions contained herein.

Done at Frankfort, Kentucky, this 13th day of April, 1995.

PUBLIC SERVICE COMMISSION

Chairman

Robert M. Davis
Vice Chairman

Linda K Breathitt
Commissioner

ATTEST:

Don Mills
Executive Director